

An Audit

Wisconsin Educational Communications Board Television Network

2003-2004 Joint Legislative Audit Committee Members

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State Auditor - Janice Mueller

Audit Prepared by

Diann Allsen, Director and Contact Person
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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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December 21, 2004

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Ms. Wendy Wink, Executive Director
Educational Communications Board
3319 West Beltline Highway
Madison, Wisconsin 53713

Dear Senator Roessler, Representative Jeskewitz, and Ms. Wink:

We have completed a financial audit of the State of Wisconsin Educational Communications Board (ECB) Television Network to meet our audit requirements under s. 13.94, Wis. Stats., and as requested by ECB to fulfill the audit requirements of the Corporation for Public Broadcasting. The Corporation requires audited financial statements of public broadcasting entities to determine future funding levels.

ECB, which is an agency of the State of Wisconsin, operates a television network of 5 digital stations and 5 analog stations, as well as a radio network of 12 FM stations and 1 AM station. The Television Network received \$11.9 million in support and revenue during fiscal year 2003-04, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

Our audit report contains ECB Television Network's financial statements and related notes for the period July 1, 2003, through June 30, 2004. We were able to issue an unqualified independent auditor's report on these statements. However, we identified concerns with ECB's capital asset accounting procedures and new capital asset inventory system, which ECB has begun to address.

We appreciate the courtesy and cooperation extended to us by ECB staff during the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller
State Auditor

JM/DA/ss

Audit Opinion ■

Independent Auditor's Report on the Financial Statements of the Wisconsin Educational Communications Board Television Network

We have audited the accompanying balance sheet of the Wisconsin Educational Communications Board Television Network's Operating Fund and the Wisconsin Public Broadcasting Foundation, Inc.'s Television Fund as of June 30, 2004, and the related statement of revenues, expenses, and changes in fund net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the Educational Communications Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Wisconsin Educational Communications Board Television Network and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2004, and changes in its financial position and its cash flows, where

applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial positions of the Wisconsin Educational Communications Board Television Network's Operating Fund and the Wisconsin Public Broadcasting Foundation Inc.'s Television Fund as of June 30, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Wisconsin Educational Communications Board Television Network. Management's Discussion and Analysis on pages 5 through 7 is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2004, on our consideration of the Wisconsin Educational Communications Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and our tests of other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

December 10, 2004

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director

Management's Discussion and Analysis ■

Prepared by Educational Communications Board Management

The Management's Discussion and Analysis (MD&A) section is prepared by the Educational Communications Board's (ECB's) management and is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in its Statement Number 34. The MD&A provides the reader with general information on the financial activities of ECB and the Wisconsin Public Broadcasting Foundation, Incorporated (WPBF).

ECB is an agency of the State of Wisconsin that operates a public television network of 5 digital stations and 5 analog stations, as well as a public radio network of 12 FM stations and 1 AM station. ECB also operates 3 FM translators and 6 TV translators and maintains a network of 26 weather service broadcast sites. WPBF was organized by ECB under s. 39.12 and ch. 181, Wis. Stats., on September 29, 1983, for the exclusive purpose of raising funds for the Wisconsin educational television and radio networks.

Following this section are the financial statements and notes as they relate to the ECB Television Network. The Balance Sheet provides information on the types of assets and the liabilities of the Television Network, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Television Network's financial position is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Fund Net Assets and the Statement of Cash Flows provide information on income and expenses and cash activities. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Television Network's adoption of the GASB 34 reporting model had a significant effect on the format of the Statement of Revenues, Expenses, and Changes in Fund Net Assets. GASB 34 redirects the focus of the reader from operating income gain or loss to the changes in fund net assets. State General Fund revenue, which is a significant source of funding for the Television Network, is reported as nonoperating revenues. The result is a net operating loss in the net operating revenues line. This loss is offset when the nonoperating revenues (with state General Fund revenue) and capital contributions are later added, resulting in a positive change in net assets.

Condensed financial information relating to the ECB Television Network as of and for the fiscal years ended June 30, 2004, and June 30, 2003, is as follows:

ECB Television Network Condensed Financial Information

	June 30, 2004	June 30, 2003 ¹	Change
Total Assets	\$20,364,753	\$19,087,394	7%
Total Liabilities	1,263,308	1,759,292	-28
Net Assets	<u>\$19,101,445</u>	<u>\$17,328,102</u>	

	FY 2003-04	FY 2002-03	Change
Operating Revenue	\$5,194,954	\$4,872,197	7%
Operating Expenses	9,741,694	10,712,487	-9
Net Operating Loss	(4,546,740)	(5,840,290)	
Nonoperating Revenue (Expense)	4,024,791	4,794,389	-16
Capital Contributions	2,295,292	7,088,725	-68
Changes in Net Assets	<u>\$1,773,343</u>	<u>\$6,042,824</u>	

¹ Certain FY 2002-03 amounts have been restated to reflect a prior-period restatement and have been reclassified for comparative purposes to conform with presentation of the current-year amounts.

The total assets increase of 7 percent and the liabilities decrease of 28 percent were largely due to the conversion to high-definition television (HDTV). The Federal Communications Commission (FCC) mandated that all noncommercial educational television broadcasters convert to digital transmission in 2003. With support from the State and the U.S. Department of Commerce, ECB began digital transmissions on all five stations at various times in 2003, the last going on air in early August 2003.

ECB was able to have all five HDTV transmitters operational in 2003 in accordance with the FCC mandate.

It should be noted that \$14,323,220 of the fixed assets of ECB related to television are presented at historical cost less depreciation. Replacement cost of buildings and equipment, using the Builders Cost Index, is over \$49 million for the combined statewide public television and radio networks.

Operating revenues in total were slightly larger than in the last fiscal year because of an increase in the grants received from the Corporation for Public Broadcasting (CPB) and other sources. Operating expenses decreased from the level of last fiscal year. During FY 2002-03, the ECB Television Network had incurred increased expenses associated with the purchase of noncapitalized equipment for digital television. In addition, ECB reduced expenses in FY 2003-04 in response to reduced General Fund revenue.

Nonoperating revenues consist of investment earnings and losses, both realized and unrealized. The value of investments increased in FY 2003-04 because of market gains. In accordance with GASB 34, nonoperating revenues also include state General Fund revenue from the State of Wisconsin General Fund, which declined in FY 2003-04. The nonoperating expense also consists of a required lapse of \$74,900 to the General Fund. The net results of all operations for the year are summarized in the line titled Changes in Net Assets.

Capital contributions decreased significantly in FY 2003-04 in comparison to FY 2002-03. During FY 2002-03, ECB had received increased funding from the State Building Trust Fund and federal grants for the development of the digital television network.

This financial report is designed to provide a general overview of the Educational Communications Board's finances related to public television. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to ECB in care of the Executive Director, 3319 West Beltline Highway, Madison, WI 53713-4296.

General information relating to the Educational Communications Board can be found at the ECB's Web site, www.ecb.org.

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Financial Statements ■

Balance Sheet
June 30, 2004

	Operating Fund	WPBF (Note 12)	Total June 30, 2004
ASSETS			
Current Assets:			
Cash and cash equivalents (Notes 1 and 2)	\$ 347,756	\$ 1,538,903	\$ 1,886,659
Investments (Notes 1 and 2)	0	2,643,242	2,643,242
Receivable—state general appropriations	86,413	0	86,413
Grants and contracts receivable	1,342	1,645	2,987
Interfund receivable (payable) (Note 3)	11,872	(11,872)	0
Interest receivable	0	2,945	2,945
Accounts receivable—instructional material	2,066	0	2,066
Receivable—due from affiliates	116,614	4,368	120,982
Other receivables	28,433	0	28,433
Inventory—instructional material	48,137	0	48,137
Costs incurred for programs not yet broadcast	223,314	0	223,314
Prepaid rent expenses (Note 6)	79,889	0	79,889
Total Current Assets	<u>945,836</u>	<u>4,179,231</u>	<u>5,125,067</u>
Noncurrent Assets:			
Prepaid rent expenses (Note 6)	551,908	0	551,908
Costs incurred for programs not yet broadcast	364,558	0	364,558
Land (Note 4)	77,479	0	77,479
Buildings (Note 4)	4,121,501	0	4,121,501
Equipment (Note 4)	10,124,240	0	10,124,240
Total Noncurrent Assets	<u>15,239,686</u>	<u>0</u>	<u>15,239,686</u>
TOTAL ASSETS	<u>\$ 16,185,522</u>	<u>\$ 4,179,231</u>	<u>\$ 20,364,753</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 855,345	\$ 102,235	\$ 957,580
Accrued liabilities due to affiliates	74,344	62,358	136,702
Total Current Liabilities	<u>929,689</u>	<u>164,593</u>	<u>1,094,282</u>
Noncurrent Liabilities:			
Compensated absences payable (Note 5)	169,026	0	169,026
Total Noncurrent Liabilities	<u>169,026</u>	<u>0</u>	<u>169,026</u>
Net Assets:			
Invested in capital assets	14,323,220	0	14,323,220
Restricted for grants	1,342	0	1,342
Unrestricted	762,245	4,014,638	4,776,883
Total Net Assets	<u>15,086,807</u>	<u>4,014,638</u>	<u>19,101,445</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,185,522</u>	<u>\$ 4,179,231</u>	<u>\$ 20,364,753</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended June 30, 2004

	Operating Fund	WPBF (Note 12)	Total 2003-04
OPERATING REVENUES			
Contributions Undesignated	\$ 0	\$ 2,439,391	\$ 2,439,391
Corporation for Public Broadcasting Grants	0	1,053,439	1,053,439
Underwriting Grants	0	205,358	205,358
Other Grants	378,696	68,952	447,648
Contributed In-Kind Support (Note 10)	199,924	0	199,924
Major Gifts	0	165,483	165,483
Instructional Projects and Materials	329,719	0	329,719
Royalties and Other Income	317,523	36,469	353,992
Total Operating Revenues	1,225,862	3,969,092	5,194,954
OPERATING EXPENSES			
Program Services:			
Programming and production	3,362,360	15,327	3,377,687
Broadcasting	4,196,952	0	4,196,952
Program information	40,419	79,077	119,496
Total Program Services	7,599,731	94,404	7,694,135
Support Services:			
Management and general	968,632	82,908	1,051,540
Fund-raising and membership development	83,531	734,243	817,774
Underwriting	166,324	11,921	178,245
Total Support Services	1,218,487	829,072	2,047,559
Total Operating Expenses	8,818,218	923,476	9,741,694
OPERATING INCOME (LOSS)	(7,592,356)	3,045,616	(4,546,740)
NONOPERATING REVENUES (EXPENSES)			
State General Fund Revenue for Operations	3,944,632	0	3,944,632
Required Lapse to the State General Fund	(74,900)	0	(74,900)
Loss on Disposal of Capital Assets	(11,117)	0	(11,117)
Capital Debt Interest Expense (Note 7)	(266,225)	0	(266,225)
Investment Income	0	432,401	432,401
Total Nonoperating Revenues (Expenses)	3,592,390	432,401	4,024,791
Income (Loss) Before Contributions and Transfers	(3,999,966)	3,478,017	(521,949)
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Capital Contributions (Note 9)	2,295,292	0	2,295,292
Interfund Transfers (Note 3)	2,314,376	(2,314,376)	0
CHANGE IN NET ASSETS	609,702	1,163,641	1,773,343
Total Net Assets—Beginning of the Year	14,359,994	2,850,997	17,210,991
Prior-Period Restatement (Note 14)	117,111	0	117,111
Total Net Assets—End of the Year	\$ 15,086,807	\$ 4,014,638	\$ 19,101,445

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended June 30, 2004

	Operating Fund	WPBF (Note 12)	Total 2003-04
CASH FLOWS FROM OPERATING ACTIVITIES			
Contributed Support	\$ 0	\$ 2,810,232	\$ 2,810,232
Receipts from Grants	707,424	1,125,041	1,832,465
Receipts from Instructional Projects and Materials	328,304	0	328,304
Receipts from Royalties and Other Sales	350,101	32,301	382,402
Payments to Suppliers	(4,246,750)	(877,170)	(5,123,920)
Payments to Employees	(3,513,305)	0	(3,513,305)
Net Cash Provided (Used) by Operating Activities	(6,374,226)	3,090,404	(3,283,822)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Receipts from State Government	4,396,711	0	4,396,711
Required Lapse to the State General Fund	(74,900)	0	(74,900)
Interfund Transfers	2,416,438	(2,416,438)	0
Net Cash Provided (Used) by Noncapital Financing Activities	6,738,249	(2,416,438)	4,321,811
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Contributions	2,295,292	0	2,295,292
Purchases of Capital Assets	(2,288,992)	0	(2,288,992)
Proceeds from Sale of Capital Assets	71,000	0	71,000
Interest Paid on Capital Debt	(266,225)	0	(266,225)
Net Cash Provided by Capital and Related Financing Activities	(188,925)	0	(188,925)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases, Sales, and Maturities of Investments	0	(242,102)	(242,102)
Interest and Dividends	0	24,908	24,908
Net Cash Used for Investing Activities	0	(217,194)	(217,194)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	175,098	456,772	631,870
Balances—Beginning of the Year	172,658	1,082,131	1,254,789
Balances—End of the Year	\$ 347,756	\$ 1,538,903	\$ 1,886,659

The accompanying notes are an integral part of this statement.



	Operating Fund	WPBF (Note 12)	Total 2003-04
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ (7,592,356)	\$ 3,045,616	\$ (4,546,740)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation expense	1,211,113	0	1,211,113
Change in assets and liabilities:			
Receivables, net	359,891	(1,518)	358,373
Inventories	734	0	734
Accounts and other payables	(541,531)	45,547	(495,984)
Prepaid expenses	187,923	759	188,682
Net Cash Provided (Used) by Operating Activities	<u>\$ (6,374,226)</u>	<u>\$ 3,090,404</u>	<u>\$ (3,283,822)</u>

Noncash Activities:

Contributed In-Kind Support totaled \$199,924.

The net increase in the fair value of investments was \$353,612.

Notes to the Financial Statements ■

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Educational Communications Board (ECB) is an agency of the State of Wisconsin that operates a public television network consisting of 5 digital stations and 5 analog stations, as well as a public radio network of 12 FM stations and 1 AM station. ECB also operates 3 FM translators, 6 TV translators, and a network of 26 weather service broadcast sites. These financial statements include the accounts relating to the ECB Television Network only. Separate accounts for the radio and television networks are maintained by direct charging whenever possible. All general organization transactions are distributed by an appropriate allocation system.

Television Network financial statements are combined with the Television Fund of the Wisconsin Public Broadcasting Foundation, Inc. (WPBF), a not-for-profit corporation that solicits funds in the name of and with the express approval of ECB and provides support to the ECB radio and television networks. See Note 12 for further information regarding WPBF.

B. Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). ECB has not applied Financial Accounting Standards Board pronouncements issued after November 30, 1989. The financial statements are presented using the economic resources measurement

focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Revenues from government-mandated or voluntary non-exchange transactions, such as contributions and grants, are recognized when all applicable eligibility requirements are met. Eligibility requirements are established by the provider of the funds and may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies. Purpose restrictions that specify the purpose for which resources are required to be used are not considered an eligibility requirement and do not affect when a nonexchange revenue is recognized.

Contributions, gifts, and grants that do not have eligibility requirements are reported as revenue when ECB is entitled to the funds. Pledges for contributions and membership fees are reported as income when cash is received. Contributions, gifts, and grants with eligibility requirements, such as expenditure-driven grants, are recognized when the eligibility requirements are met. Non-cash contributions and donated services are recognized as revenues in the period of receipt.

Expenses are categorized in functional categories. Expenses that relate to more than one category are allocated to the respective categories, using estimates if necessary. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Operating revenues and expenses are directly related to programming, production, development, and delivery of telecommunication services. Nonoperating revenues and expenses, such as investment income, are indirectly associated with programming, production, development, and delivery of telecommunication services. Certain significant revenue streams, such as state General Fund revenue, are reported as nonoperating revenue, as defined by GASB Statement Number 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*.

C. Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For example, broadcasting expenses and administrative expenses are allocated between the television and radio networks based upon historical costs. Actual results may differ from those estimates.

D. Cash and Cash Equivalents

Cash and cash equivalents in the Television Network’s operating fund include cash balances deposited with the State and shares in the

State Investment Fund, a short-term investment pool of state and local funds. Cash and cash equivalents in the WPBF fund include cash deposits with financial institutions.

E. Valuation of Investments

Investments are carried at fair-market value based on quoted market prices. State Investment Fund shares are valued at fair-market value.

F. Costs Incurred for Programs Not Yet Broadcast

Costs incurred for programs not yet broadcast relate to programs produced or acquired by the ECB Television Network that will be broadcast subsequent to the fiscal year-end. Such costs are reported as an asset. Programs to be completed and broadcast within one year are classified as current assets, whereas programs to be completed and broadcast in more than one year are classified as noncurrent. As the programs are broadcast, the costs incurred will be included in operating expenses. Program status is evaluated annually. Costs associated with programs not considered to have future benefit are adjusted to net realizable value.

G. Receivable—State General Appropriations

The portion of liabilities to be financed with amounts appropriated by the State of Wisconsin for FY 2003-04 is reported as a receivable as of the fiscal year-end.

H. Property and Equipment

Items classified as permanent property are recorded at cost or, for donated property, at the estimated fair-market value at the date of receipt. Assets are capitalized if their acquisition value is in excess of \$5,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 6 years for computer equipment to 20 years for buildings and towers. Expenses for repairs and maintenance are charged to operating expenses as incurred.

I. Compensated Absences for Employees

Unused, earned compensated absences, other than accumulated sick leave, are accrued with a resulting liability. The related employer's share of social security taxes, Medicare taxes, and contributions to the Wisconsin Retirement System are also accrued with a resulting liability. The liability and the expense for compensated absences are based on current rates of pay. The compensated absences liability, which generally is not paid out until retirement, is classified as either a short-term or long-term liability based upon an estimate determined by management.

J. Restricted Net Assets

Restricted net assets are reported when constraints placed on net assets are externally imposed, such as by donors or grantors. The ECB

Television Network's restricted assets include program or purpose restrictions placed by donors on contributed support or gifts. Unrestricted net assets may be used at the Television Network's discretion.

2. DEPOSITS AND INVESTMENTS

The cash balances of ECB's operating fund are deposited with the State and invested in the State Investment Fund, which is a short-term investment pool of state and local funds managed by the State of Wisconsin Investment Board, with oversight by its Board of Trustees and in accordance with Wisconsin Statutes. Holdings of the State Investment Fund include certificates of deposit and investments consisting primarily of direct obligations of the federal government and the State, and unsecured notes of qualifying financial and industrial issuers. Shares in the State Investment Fund are not required to be categorized under GASB Statement 3. The State Investment Fund is not registered with the Securities and Exchange Commission.

WPBF manages its cash and investment activities separate from the cash and investment activities of the State Investment Fund. Cash balances are held in demand deposit and money market accounts at financial institutions. The investments of WPBF relating to the ECB Television Network are managed by private trust companies. Investment income is presented as a nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

A. Deposits

GASB Statement 3 requires deposits with financial institutions to be categorized to indicate the level of credit risk assumed. These risk categories are: 1) insured or collateralized, with securities held by the entity or by its agent in the entity's name; 2) collateralized, with securities held by the financial institution's trust department or agent in the entity's name; and 3) uninsured or uncollateralized.

At year-end, the carrying amount of ECB's Television Network deposits with financial institutions was \$1,538,903, and the bank balance was \$1,711,150. The difference is the amount of checks outstanding on June 30, 2004. Deposits of up to \$100,000 at each institution are covered by the Federal Deposit Insurance Corporation (FDIC). Of the bank balance, \$100,000 was insured and is, therefore, classified in risk category 1; \$1,611,150 was uninsured and uncollateralized and, therefore, classified in risk category 3.

B. Investments

Investments authorized by WPBF's Board of Trustees and held by WPBF include publicly traded stocks and equity mutual funds. GASB Statement 3 requires investments to be categorized to indicate the level of risk assumed by the State at year-end. The risk categories for investments are:

1) insured or registered, or the securities are held by the entity or its agent in the entity's name; 2) uninsured and unregistered, with securities held by counterparty or its agent in the entity's name; and 3) uninsured and unregistered, or the securities are held by counterparty or its agent, but not in the entity's name. With the exception of funds invested in open-end mutual funds, which are not required to be categorized, all investments meet the criterion for risk category 1. Detail for investment balances as of June 30, 2004, follows:

	<u>Fair Value</u>	<u>Cost</u>
Equity Securities	\$2,406,061	\$2,111,206
Equity Mutual Funds	<u>237,181</u>	<u>220,247</u>
Total	<u>\$2,643,242</u>	<u>\$2,331,453</u>

3. FUND TRANSFERS

WPBF transfers funds monthly to ECB's operating fund based upon funding requirements. The transfers are reflected as interfund transfers on the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The timing of those transfers and the expenses result in an interfund payable and a receivable at year-end, which are reflected in the Balance Sheet.

4. CAPITAL ASSETS

	<u>Beginning Balance¹</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 77,479	\$ 0	\$ 0	\$ 77,479
Capital Assets Being Depreciated:				
Buildings	4,885,573	947,055	0	5,832,628
Equipment	<u>17,496,751</u>	<u>1,341,937</u>	<u>(402,888)</u>	<u>18,435,800</u>
Total Capital Assets at Historical Cost	22,382,324	2,288,992	(402,888)	24,268,428
Less Accumulated Depreciation for:				
Buildings	(1,645,642)	(65,485)	0	(1,711,127)
Equipment	<u>(7,486,703)</u>	<u>(1,145,628)</u>	<u>320,771</u>	<u>(8,311,560)</u>
Total Accumulated Depreciation	<u>(9,132,345)</u>	<u>(1,211,113)</u>	<u>320,771</u>	<u>(10,022,687)</u>
Total Capital Assets Being Depreciated, Net	<u>13,249,979</u>	<u>1,077,879</u>	<u>(82,117)</u>	<u>14,245,741</u>
Total Capital Assets, Net	<u>\$13,327,458</u>	<u>\$1,077,879</u>	<u>\$(82,117)</u>	<u>\$14,323,220</u>

¹ Beginning balances were restated for a prior-period restatement (see Note 14).

Depreciation expense was charged to functions as follows:

Programming	\$ 2,664
Delivery	1,165,842
Administration	<u>42,607</u>
Total Depreciation Expense	\$1,211,113

Federal grant funds received from the National Telecommunications and Information Administration (NTIA) to purchase equipment contain a priority lien. The lien extends for a period of ten years after the grant is closed, during which time the federal government retains priority reversionary interest in the equipment. ECB was awarded four NTIA capital equipment grants related to the ECB Television Network between FY 1992-93 and FY 2001-02. The book value of equipment purchased with NTIA funds is \$2,421,007 as of June 30, 2004.

5. NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$207,534	\$23,047	(\$61,555)	\$169,026

The noncurrent liabilities are generally funded with operating subsidies received from the State of Wisconsin. The portion of the liability that is due within one year is reflected in the current liabilities on the Balance Sheet.

6. GREEN BAY TOWER OPERATING LEASE

The Department of Administration authorized ECB to enter into a long-term contract with Young Broadcasting of Green Bay, Inc., with the contract period not to exceed 20 years. ECB executed a multi-year lease of a tower, transmission line, antenna, channel combiner, air conditioning, and transmitter building. The lease agreement required a rent prepayment in the amount of \$743,000, of which \$643,000 was allocated to the Television Network. The prepayment was paid in September 2002 and was funded by the Wisconsin State Building Trust Fund. The rent expense associated with the prepayment is being recognized over the life of the lease, which is 20 years. The amount paid in excess of the amount recognized is reported as a prepaid expense on the Balance Sheet.

In addition to the rent prepayment, ECB is required to make an annual rent payment in lieu of taxes. The contract requires an initial payment of \$10,000 and a scheduled rent increase each lease year by 3 percent compounded until the end of the lease term. The annual payments are allocated 60 percent to the Television Network and 40 percent to the Radio Network.

The following is a schedule of future minimum obligations under this operating lease as of June 30, 2004:

<u>Fiscal Year Ended June 30</u>	<u>Television Network</u>	<u>Radio Network</u>	<u>Total Amount</u>
2005	\$ 6,365	\$ 4,244	\$ 10,609
2006	6,556	4,371	10,927
2007	6,753	4,502	11,255
2008	6,956	4,637	11,593
2009	7,164	4,776	11,940
2010-2014	39,177	26,118	65,295
2015-2019	45,417	30,278	75,695
2020-2022	<u>30,653</u>	<u>20,435</u>	<u>51,088</u>
Total	<u>\$149,041</u>	<u>\$99,361</u>	<u>\$248,402</u>

7. GENERAL OBLIGATION BONDS AND NOTES

ECB has used proceeds received from a number of State of Wisconsin general obligation bonds and general obligation commercial paper notes to finance the acquisition, construction, development, enlargement, or improvement of facilities operated by ECB. The proceeds were included as support in the year the facilities were acquired.

The general obligation bonds repaid by the State’s general purpose revenue are not considered debt of ECB because their repayment is from general purpose revenue. Therefore, the debt financed through general purpose revenue appropriations is reported in the State of Wisconsin Comprehensive Annual Financial Report rather than the ECB Television Network’s financial statements. The indebtedness carried by the State of Wisconsin on behalf of the ECB Television Network to be repaid by general purpose revenue as of June 30, 2004, is \$11,832,116 in general obligation bonds and \$407,133 in commercial paper notes. ECB is responsible for the repayment of interest on these obligations; therefore, interest expense of \$266,225 is included in nonoperating expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

8. ENDOWMENT

The management of WPBF established an endowment during FY 1992-93. The balance as of June 30, 2004, is \$653,942. Investment income earned on the endowment is used for operations. None of the assets in the endowment at June 30, 2004, are donor-restricted. Assets in the endowment follow the investment policy disclosed in Notes 1 and 2.

9. CAPITAL CONTRIBUTIONS

The capital contributions for the ECB Television Network are:

A. State of Wisconsin Building Trust Fund Appropriation

The amounts provided from the State of Wisconsin Building Trust Fund to finance ECB projects approved by the State Building Commission are recorded as revenue in the period expenses are incurred.

B. Grants

Federal grant funds received from NTIA and used to purchase capital equipment are recorded as support when the expense is incurred.

10. CONTRIBUTED IN-KIND SUPPORT

Contributed in-kind support represents expenses paid on behalf of ECB by other entities and includes donated professional services, donated general operational services, and donated instructional television services. In-kind support is reported both as revenue and as expenses and, therefore, has no effect on net assets.

Donated professional services are recorded at the fee typically charged by the professional for the same type of service. All other donated services are recorded at the cost of providing the service.

The financial statements include \$44,470 in donated professional services, \$24,626 in donated general operational services, and \$130,828 in donated instructional television services.

11. EMPLOYEE RETIREMENT PLAN

Permanent employees of the ECB Television Network are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings; 2) years of creditable service; and 3) a formula factor. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit.

The Wisconsin Retirement System is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information of the Wisconsin Retirement System may be obtained by writing to:

Department of Employee Trust Funds
P.O. Box 7931
Madison, WI 53707-7931

The most current financial report is also available on the Department of Employee Trust Fund's Web site, *etf.wi.gov*.

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the Wisconsin Retirement System. Prior service costs are amortized over 40 years, beginning January 1, 1990. However, in December 2003 the State issued bonds and subsequently fully liquidated its prior service liability balance as of January 2003. The liquidation of the State's prior service liability resulted in credits being granted to state agencies for amounts already paid in 2003. In addition, state agencies will be required to make future contributions to fund the bond payments.

The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. The ECB Television Network's contribution to the plan, including employer and employee contributions, was \$313,179 for FY 2003-04. The relative position of the ECB Television Network in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

12. WISCONSIN PUBLIC BROADCASTING FOUNDATION, INC. (WPBF)

WPBF is a statutorily defined not-for-profit corporation (s. 39.12, Wis. Stats.) wholly owned by ECB that solicits funds in the name of, and with the approval of, ECB. WPBF's funds are managed by a five-member board of trustees consisting of the Executive Director of ECB and four members of the ECB Board. Because the State has fiscal accountability for and can influence WPBF operations through legislation, WPBF is considered a blended component unit of the State of Wisconsin. The WPBF accounts pertaining to television are included in ECB Television Network's financial statements, and the accounts pertaining to radio are included in the ECB Radio Network's financial statements. A summary of significant financial data relating to WPBF, which includes radio, television, and other non-broadcasting activities of WPBF, follows. Copies of WPBF's separately issued financial statements may be obtained by contacting ECB at 3319 West Beltline Highway, Madison, WI 53713-4296.

	<u>June 30, 2004</u>
Cash and Investments	\$7,562,339
Other Current Assets	286,109
Liabilities	<u>(420,802)</u>
Net Assets	<u>\$7,427,646</u>

	Fiscal Year Ended <u>June 30, 2004</u>
Revenues	\$9,737,602
Expenses	<u>(1,635,344)</u>
Excess Revenues over Expenses	<u>\$8,102,258</u>

13. RELATED ENTITIES

A. WHA Television

WHA Television is a public telecommunications entity licensed to the University of Wisconsin (UW) Board of Regents and operated by UW Extension. In order to achieve statewide services and economies of scale, in the mid-1980s ECB and the UW Board of Regents developed partnerships called Wisconsin Public Television and Wisconsin Public Radio to manage and operate their licenses. The partnerships are maintained through an affiliation agreement outlining structural principles and functions, administrative staff allocations, stations (of both Wisconsin Public Radio and Wisconsin Public Television), and financial commitments of the partners. The directors of Wisconsin Public Television and Wisconsin Public Radio are jointly appointed by ECB and the UW Board of Regents. Staff and resources from both agencies work together to provide administrative and program services. Amounts due to or from affiliated parties are separately disclosed on the Balance Sheet. The relationship pervades all aspects of the financial activities reported in the accompanying financial statements.

B. Rib Mountain Communications

ECB entered into a joint ownership agreement on November 1, 2001, to erect, operate, and maintain a new broadcast tower on Rib Mountain, Wisconsin. The agreement is between ECB; WRIG, Inc.; QNI; and Gray Midamerica Television, Inc. The shares of ownership are 33 percent, 23 percent, 20 percent, and 24 percent, respectively. Each party contributes its respective share of maintenance and repair on an annual basis. An annual budget is prepared for the joint ownership to determine respective amounts of maintenance due from each party. ECB allocates assets and expenses between the radio and television networks.

14. PRIOR-PERIOD RESTATEMENT

The beginning net asset balance was adjusted to reflect the adjustment of prior-year capital asset balances and expenses resulting from errors in not identifying assets that met the capitalization criteria. The effect was to increase the historical cost of assets by \$121,943, increase the amount of accumulated depreciation by \$4,832, and increase the net asset balance by \$117,111.

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Report on Control and Compliance ■

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the Wisconsin Educational Communications Board Television Network as of and for the year ended June 30, 2004, and have issued our report thereon dated December 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Educational Communications Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Educational

Communications Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The reportable conditions include deficiencies in the Educational Communications Board's capital asset accounting procedures and new capital asset inventory system. Among the deficiencies were problems in determining appropriate assets to capitalize and undetected inaccuracies in the inventory reports because of programming errors. In our testing, we found 79 of 3,757 of capital assets were not being depreciated correctly, which resulted in an understatement in \$174,459 of depreciation expense for the Television Network's capital assets and \$29,586 for the Radio Network's capital assets. In response to our concerns, the Educational Communications Board took steps to correct programming errors in the inventory system and capitalization concerns, provided materially corrected inventory reports, and revised the amounts included in the audited financial statements. We also noted a lack of proper forms and approvals for disposal of capital assets, and inadequate procedures to review and ensure the reasonableness of capital asset reporting. We will provide further discussion of these concerns and corresponding detailed recommendations in a management letter to the Educational Communications Board.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the deficiencies in the Educational Communications Board's capital asset accounting procedures and new capital asset inventory system to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Educational Communications Board Television Network's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This independent auditor's report is intended for the information and use of the Educational Communications Board, the Wisconsin Legislature's Joint Legislative Audit Committee, and the Corporation for Public Broadcasting. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on internal control over financial reporting or compliance, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

December 10, 2004

by 
Diann Allsen
Audit Director